

AVIATION

TRANSPORTATION

LOCAL SERVICES & UTILITIES

FINANCE

MANAGEMENT

Bringing Business to Government™

Financing Transit P3s 101 and 1001

Partnerships in Transit

September 18, 2008

Sasha Page, Vice President
SPage@IMGgroup.com



**Infrastructure
Management
Group, Inc.**

4733 Bethesda Ave, Suite 600
Bethesda, MD 20814
www.imggroup.com
301-907-2900

Contents



- Understand today's issues
- Define the P3 project
- Define the nature of the P3
- Maximize innovative finance sources
- Case studies



UNDERSTAND TODAY'S ISSUES

Infrastructure needs are increasing



Summary of Range of “High” Average Annual Capital Investment Levels Analyzed for All Modes (Billions of Constant Dollars)

| | Currently Sustainable ¹ | Range Through 2020 | | Range Through 2035 | | Range Through 2055 | |
|---------------------------------------|------------------------------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|
| | | From | To | From | To | From | To |
| Highway | \$68 | \$207 | \$240 | \$182 | \$250 | \$185 | \$276 |
| Transit | \$13 | \$21 | \$32 | \$23 | \$34 | \$26 | \$46 |
| Freight Rail | \$4 | \$5 | \$7 | \$5 | \$7 | \$6 | \$8 |
| Passenger Rail | \$1 | \$7 | \$7 | \$9 | \$9 | \$8 | \$8 |
| All Modes Combined² | \$86 | \$241 | \$286 | \$220 | \$301 | \$225 | \$338 |

¹The estimated “Currently Sustainable” funding for highways and transit is based on short-term Federal Highway Trust Fund revenue projections and assumes State, local, and private funding remains steady in constant dollar terms (i.e., growth equals inflation), while the estimate for freight rail assumes that private freight rail capital investment keeps pace with revenue growth. The amount shown for intercity passenger rail assumes estimated current capital investment by Amtrak and State governments remains steady in constant dollar terms.

² The combined figures do not account for cross-modal impacts.

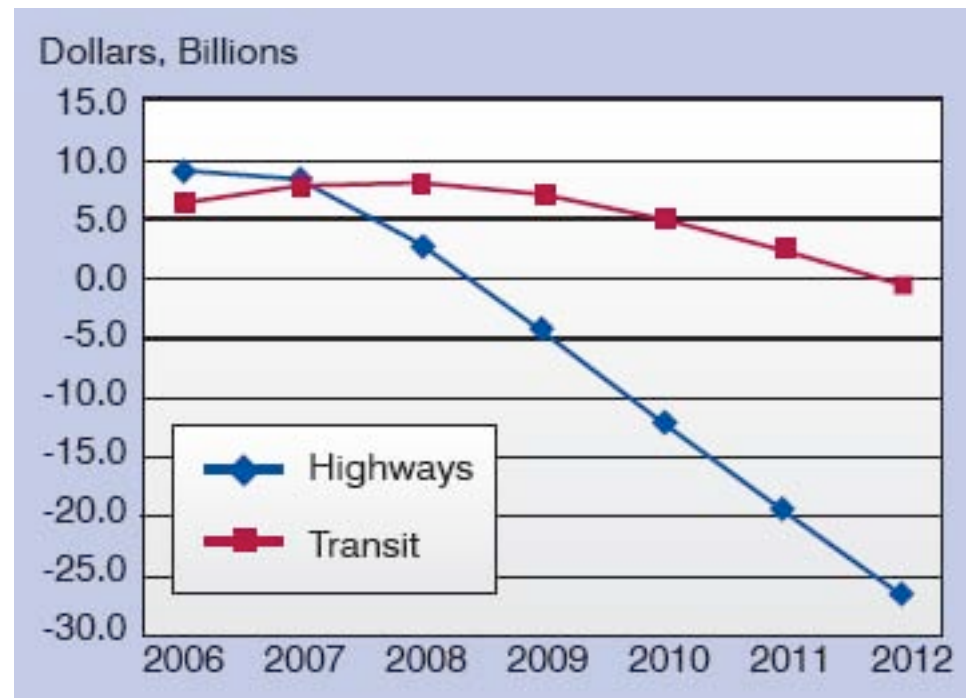
Source: National Surface Transportation Policy and Revenue Study Commission: Transportation for Tomorrow, December 2007, p. 6.

Grant funding is declining



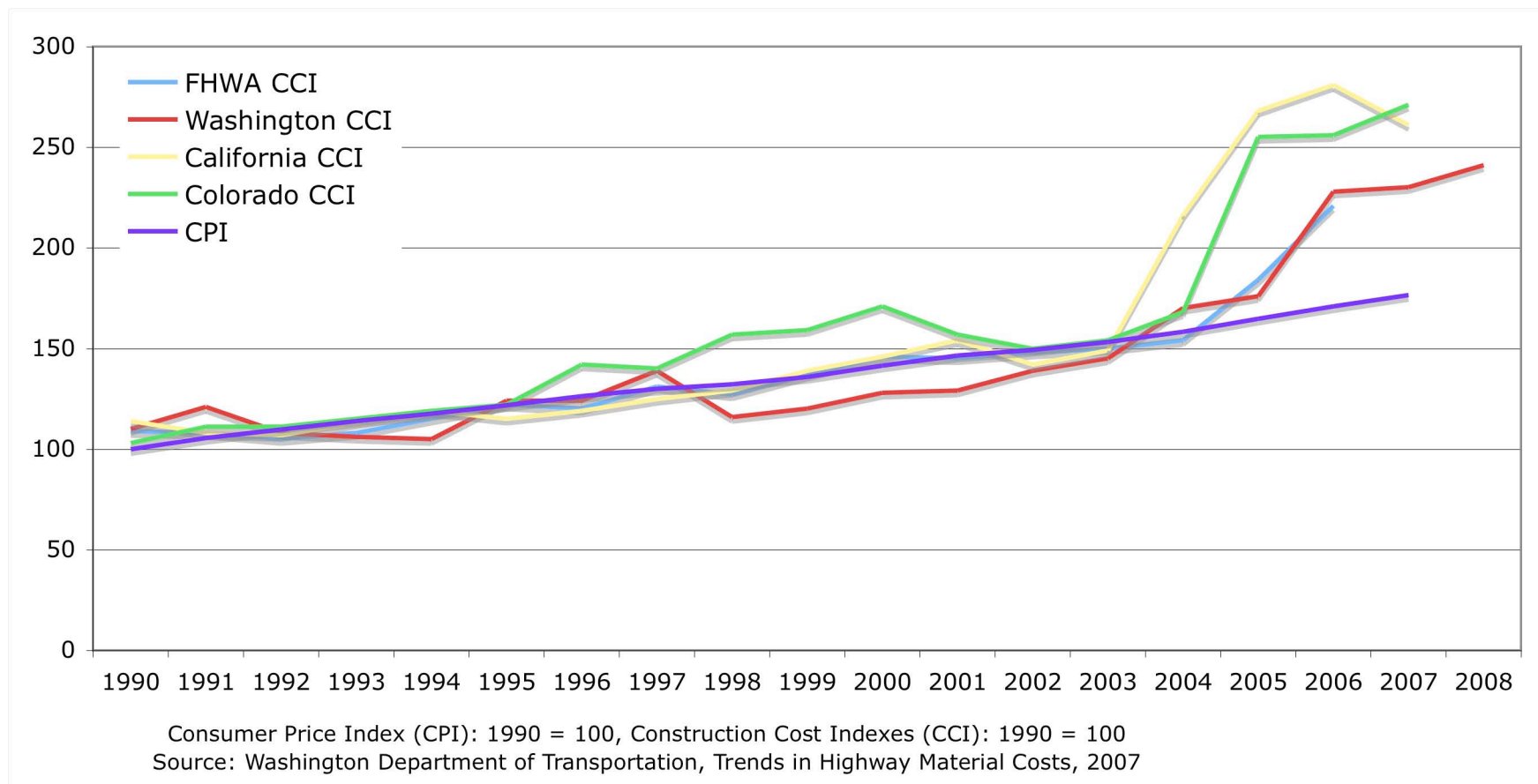
- The major source of funding for highway and transit transportation infrastructure, fuel taxes, is declining
- The Highway Account Balance (Trust Fund) is **in deficit**; transit by 2012 or sooner

Projections of Highway and Transit Account Balances Through 2012

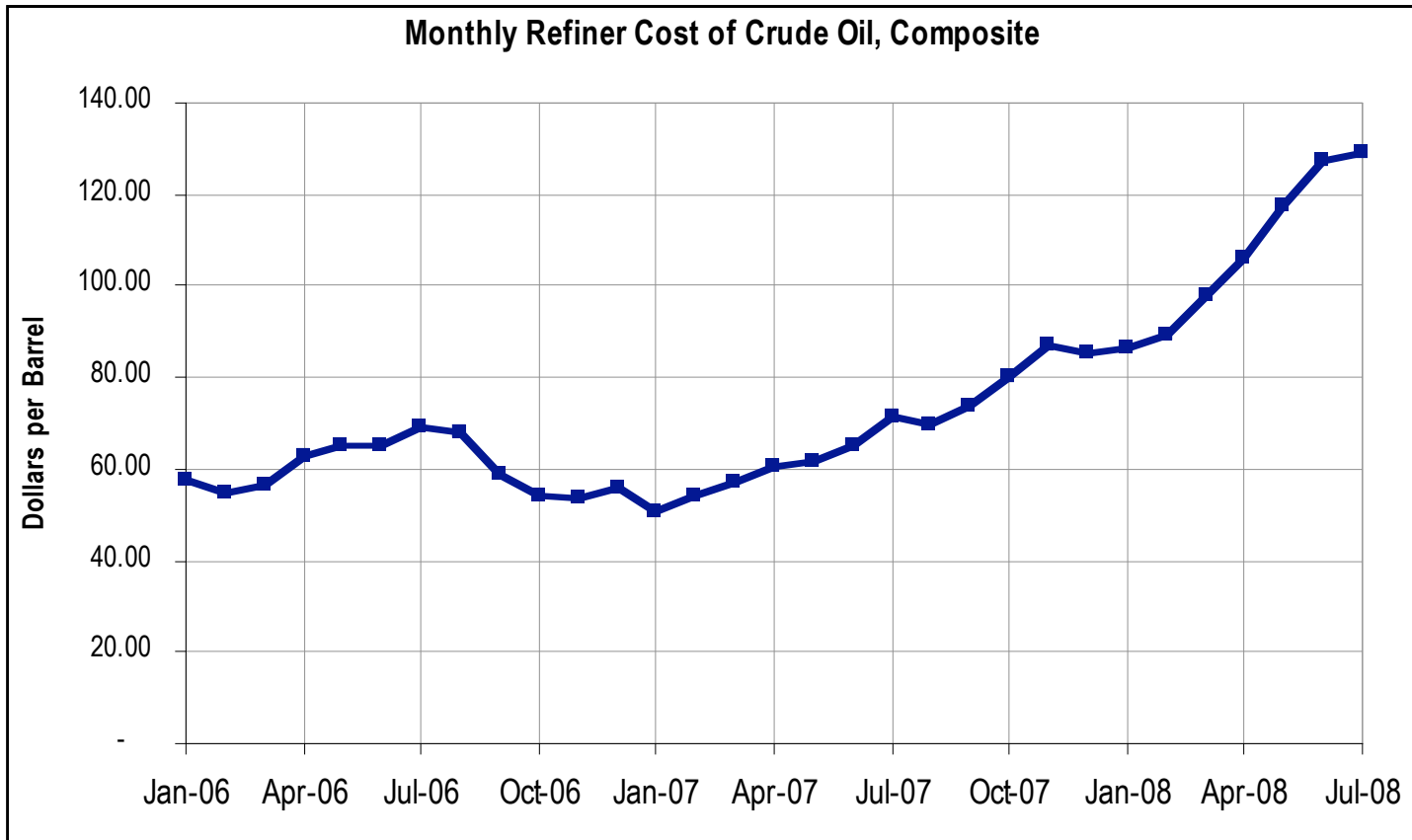


Source: National Surface Transportation Policy and Revenue Study Commission: Transportation for Tomorrow, December 2007, p. 40.

Capital costs are increasing



Oil prices were increasing . . .



Source: www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_marketing_monthly/current/txt/tables01.txt

Other trends influence demand for transit



- Road congestion is increasing
- Increased environmental sensitivity
- Desire to reduce dependence on foreign oil
- Aging population points to smaller homes, reduced car use and new urbanist approaches



DEFINE THE P3 PROJECT

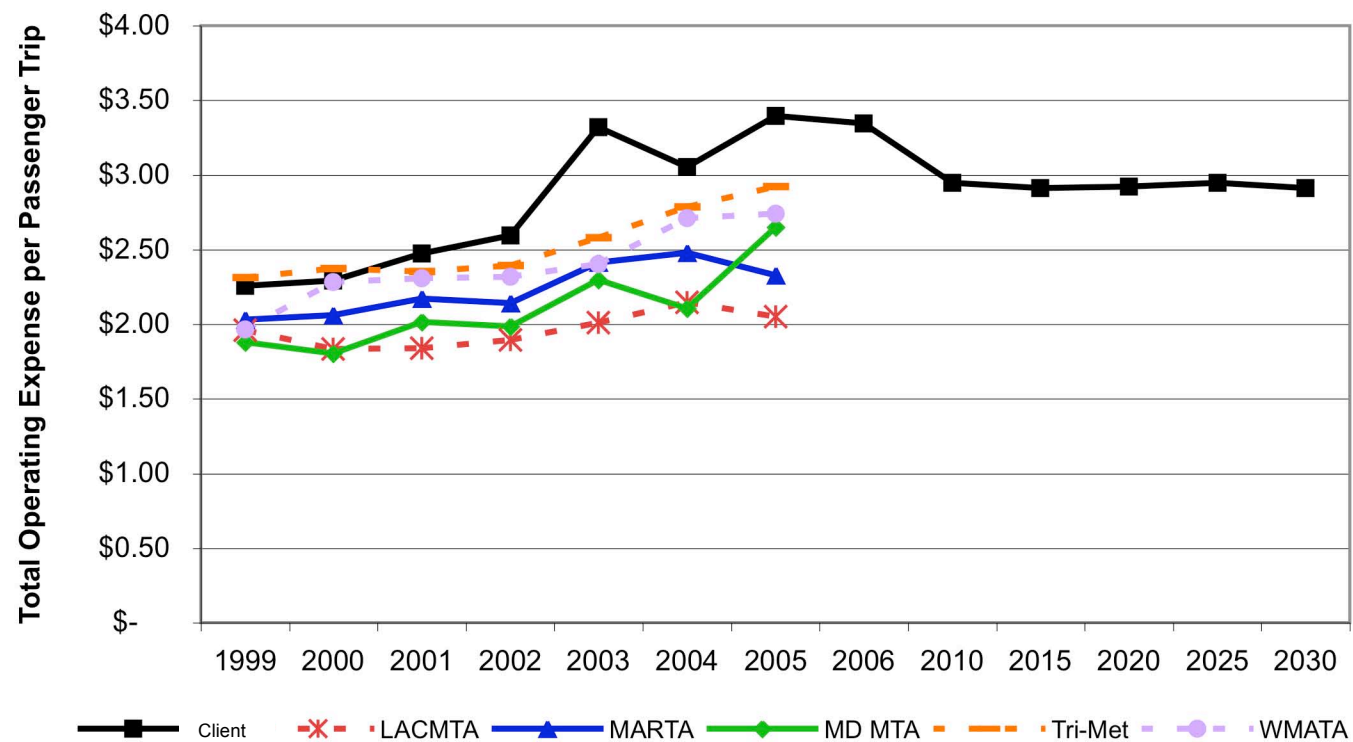
Streamline the capital program



Agree on realistic O&M costs



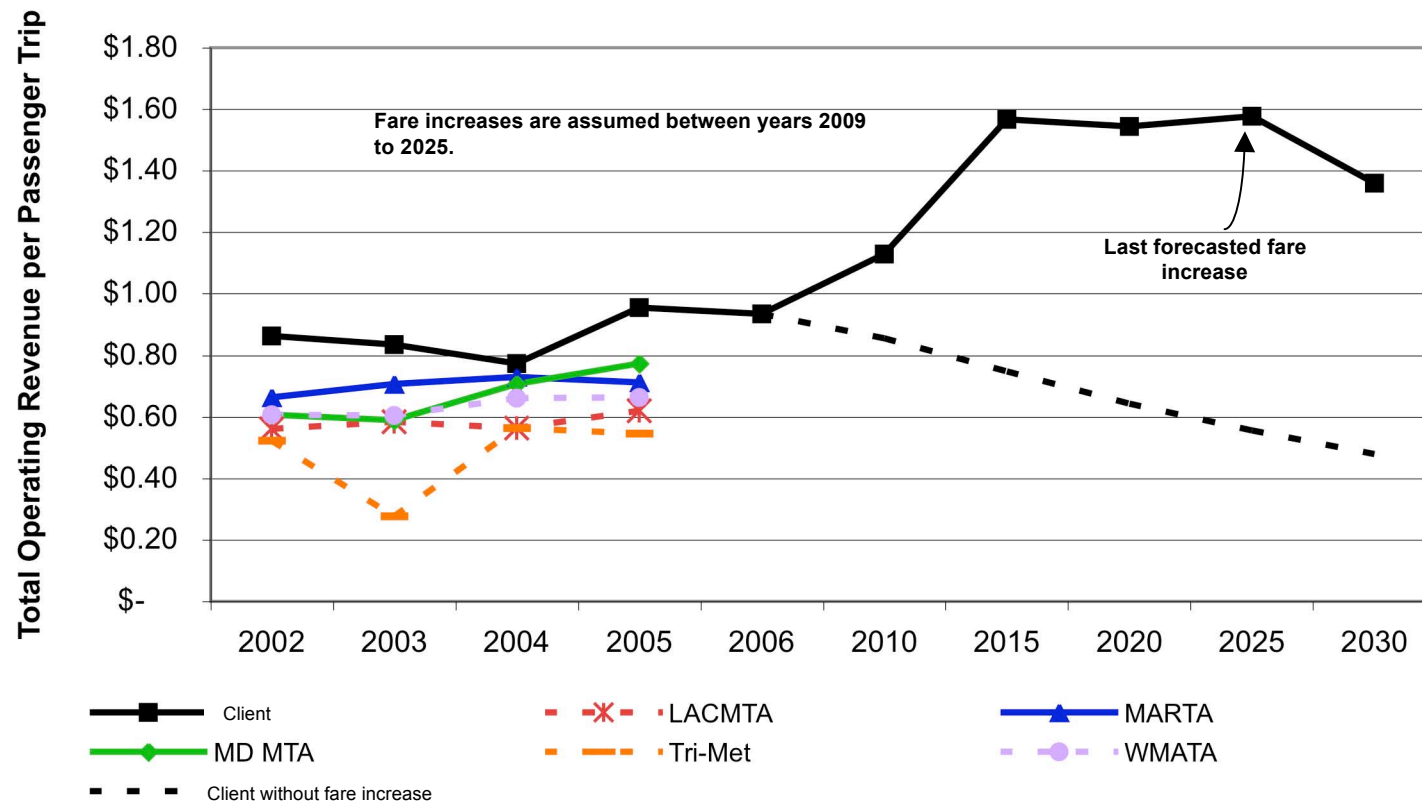
Existing Bus Operating Cost per Passenger Trip



Assume defensible ridership forecasts and revenues



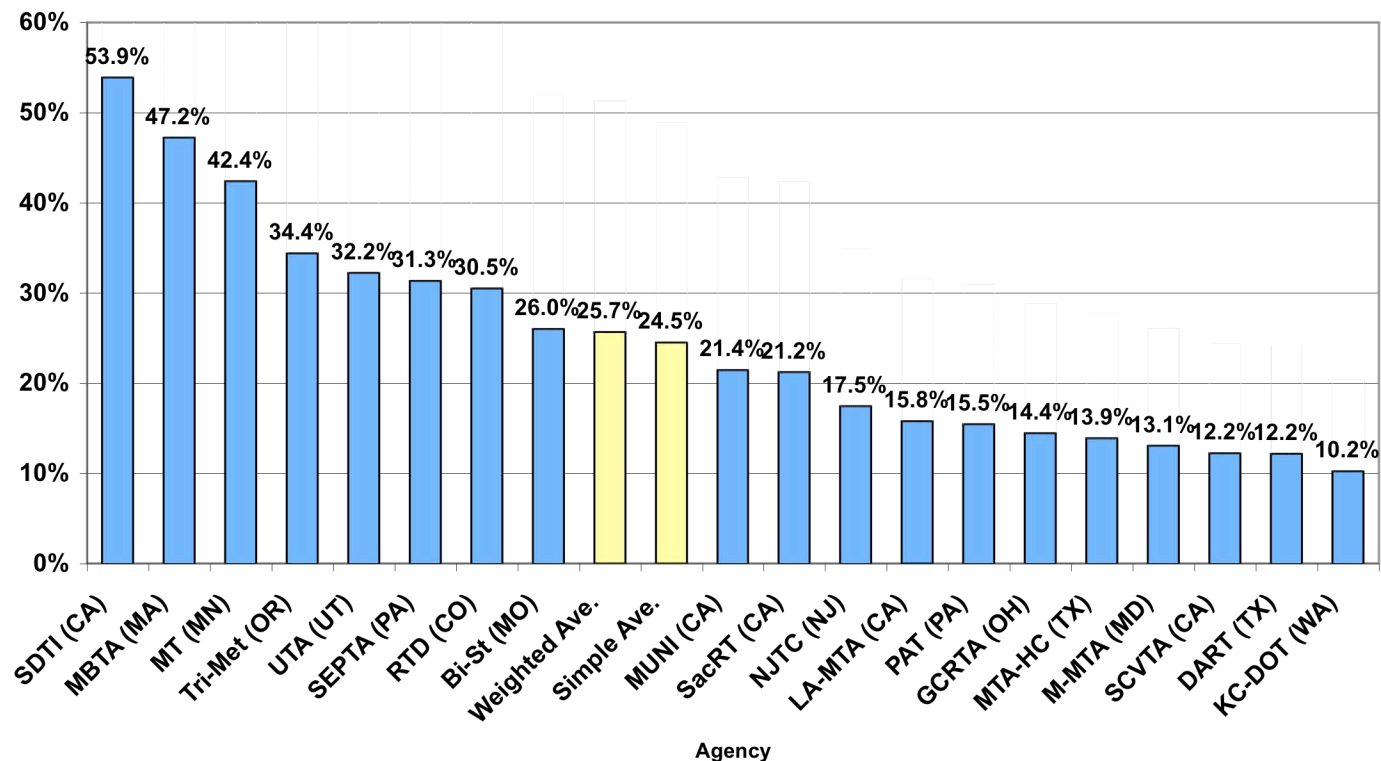
Existing Bus Operating Revenue per Passenger Trip



Settle on appropriate recovery ratio targets



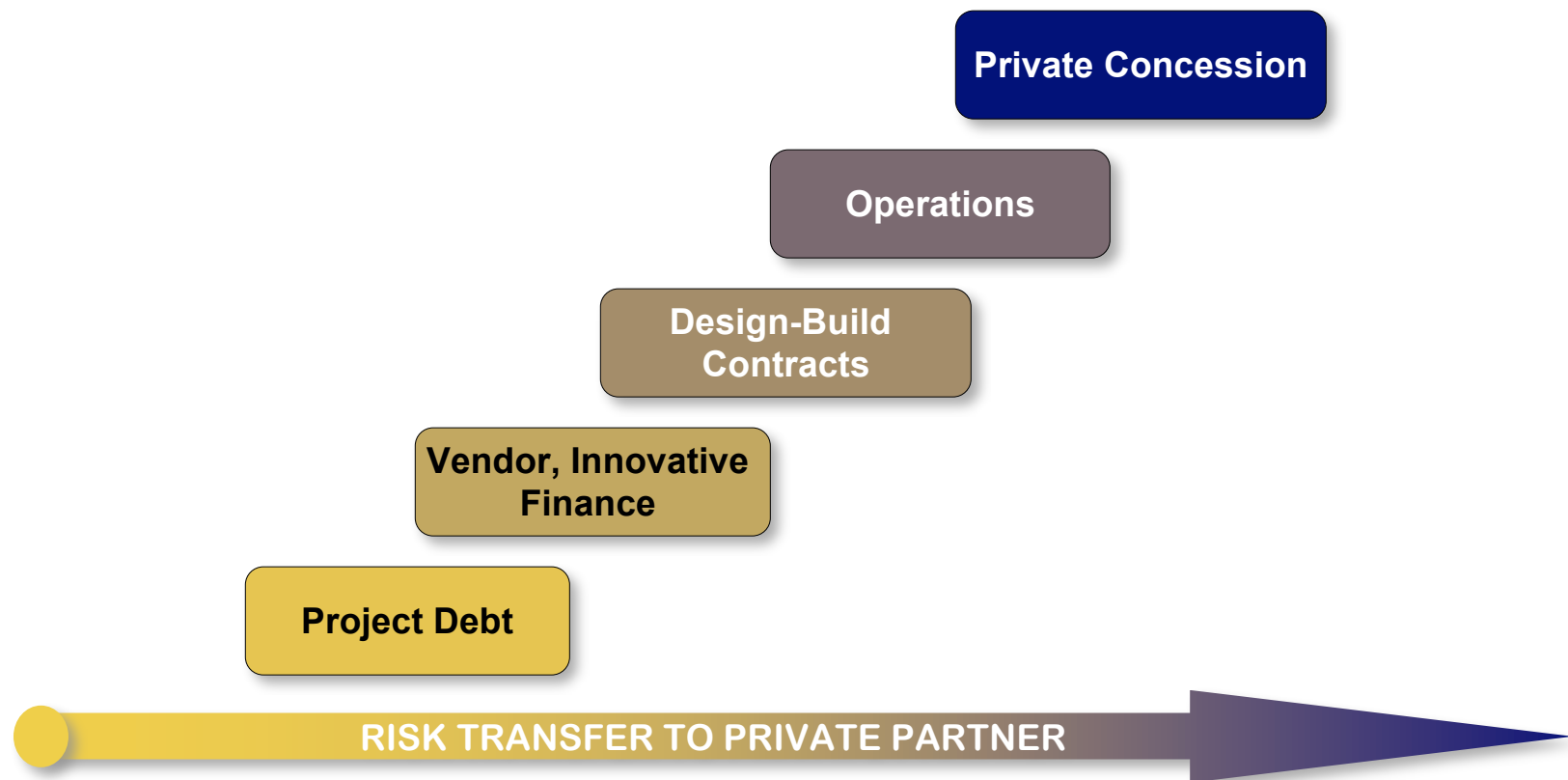
**FTA "TOP 50" LIGHT RAIL OPERATORS 2005 (19)
Farebox Recovery Ratio**





DEFINE THE NATURE OF THE P3

Position the P3 on the risk transfer spectrum



Properly allocating P3 risk improves a P3s' long-term success

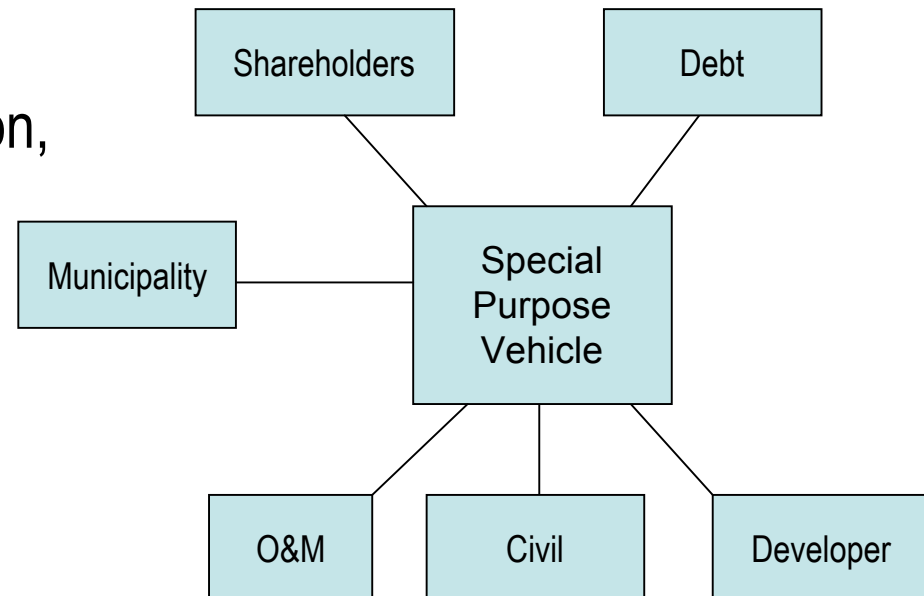


| | Contractor, Developer or Partner | Public Partners |
|--------------------------------|--|-----------------|
| Pre-Development Phase | | X |
| Financial Plan | X | X |
| Public Funding Risks | | X |
| Revenue & Debt Financing Risks | X | X |
| ROW Cost Risks | | X |
| DBOM Terms & Conditions | | X |
| Construction Cost Risks | X | |
| Operating/Performance Risks | X | |
| Maintenance Risks | X | |

A concession is the most complex P3, but best for financial risk transfer



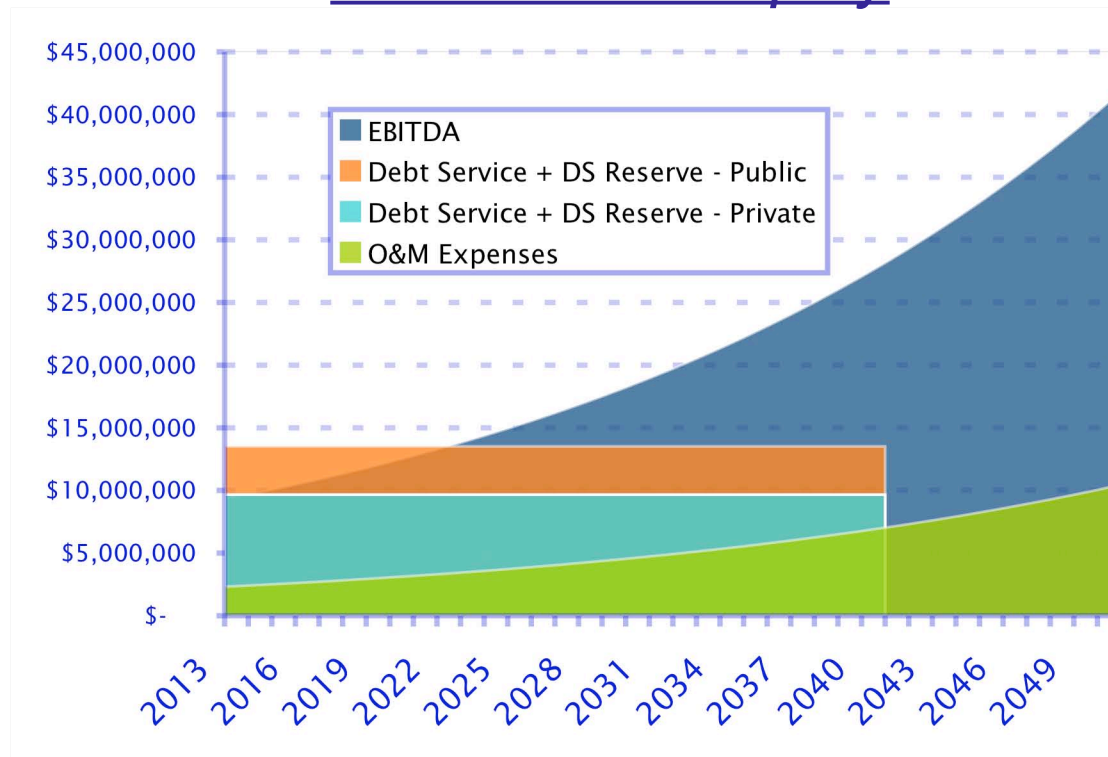
- Concession agreement:
 - 20-30 year term
 - Define municipal contribution, fare-setting & operations, design parameters
- Benefits:
 - Encourages efficiency and innovation
 - Can enable faster project delivery
 - Allows for transfer of key risks
 - Avoid cost overruns, delays



Equity helps make (greenfield) projects “pushing the envelope” feasible



Greenfield Project Cash flows With and Without Equity

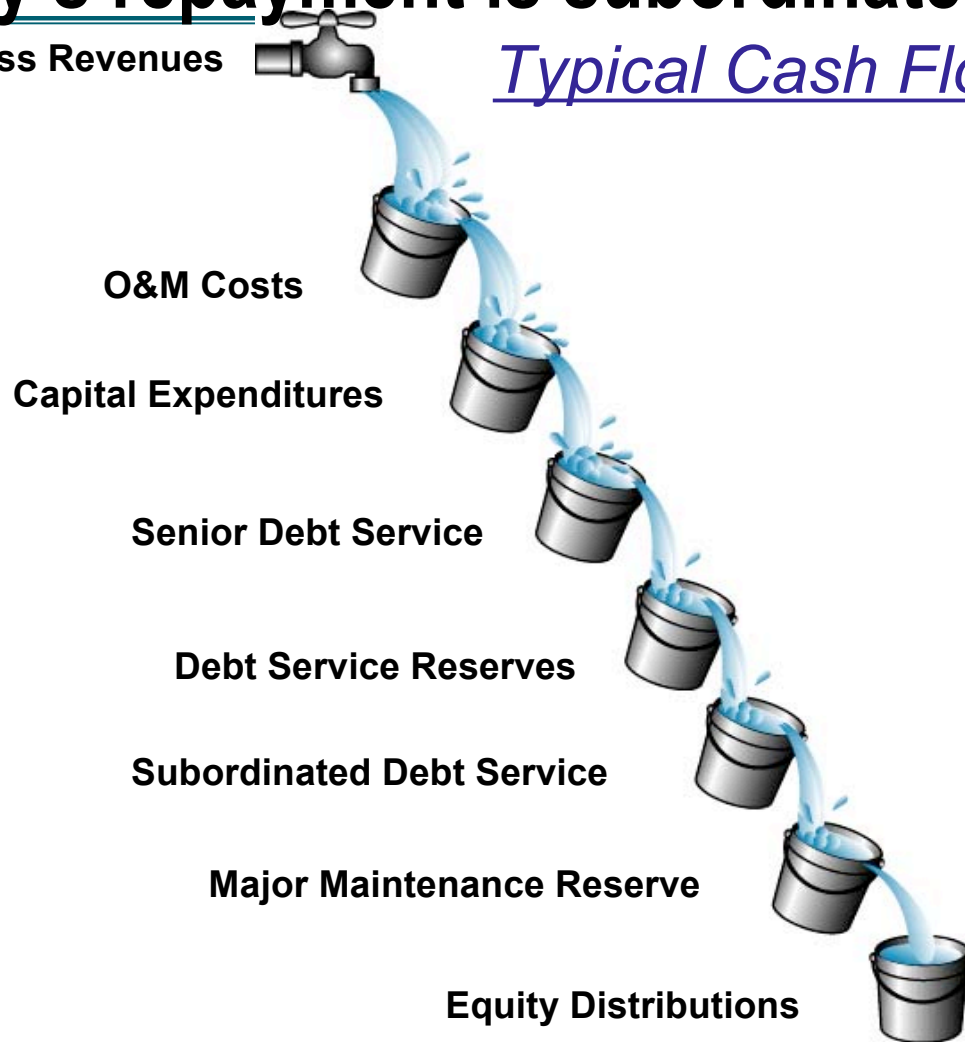


- Due to ramp-up characteristics, financing with “public” debt is not feasible
- Using equity, early debt service obligations are reduced
- Dividends (EBITDA) repay equity later in project

Not only are dividends deferred, but equity's repayment is subordinate



Gross Revenues



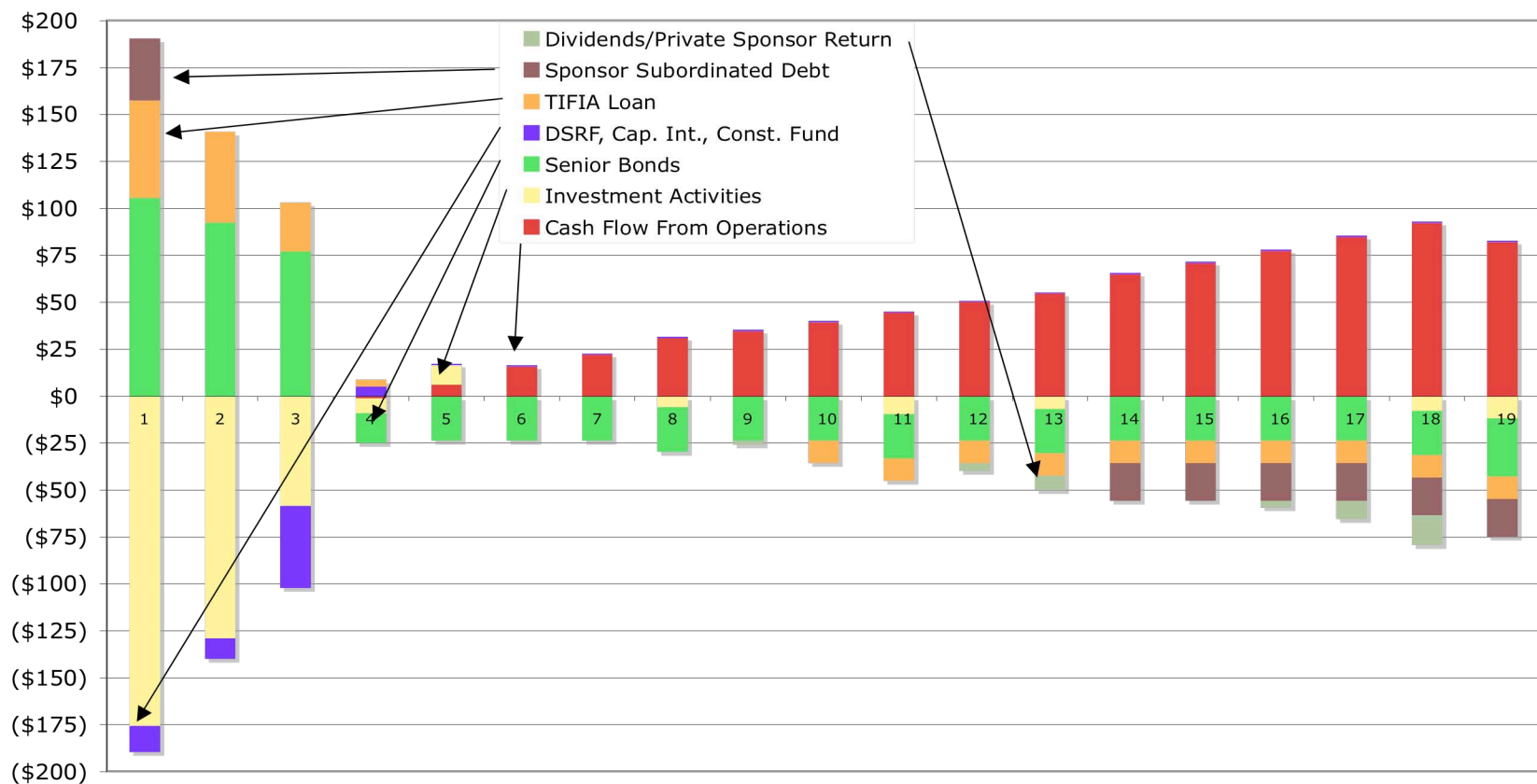
Typical Cash Flow “Waterfall”

- Equity is paid at the bottom of the (annual) cash waterfall
- Non-payment of dividends does cause project default

P3s are highly structured financings-- to ensure all parties pay and are paid



Example of Combining Senior Debt, TIFIA and Private Equity



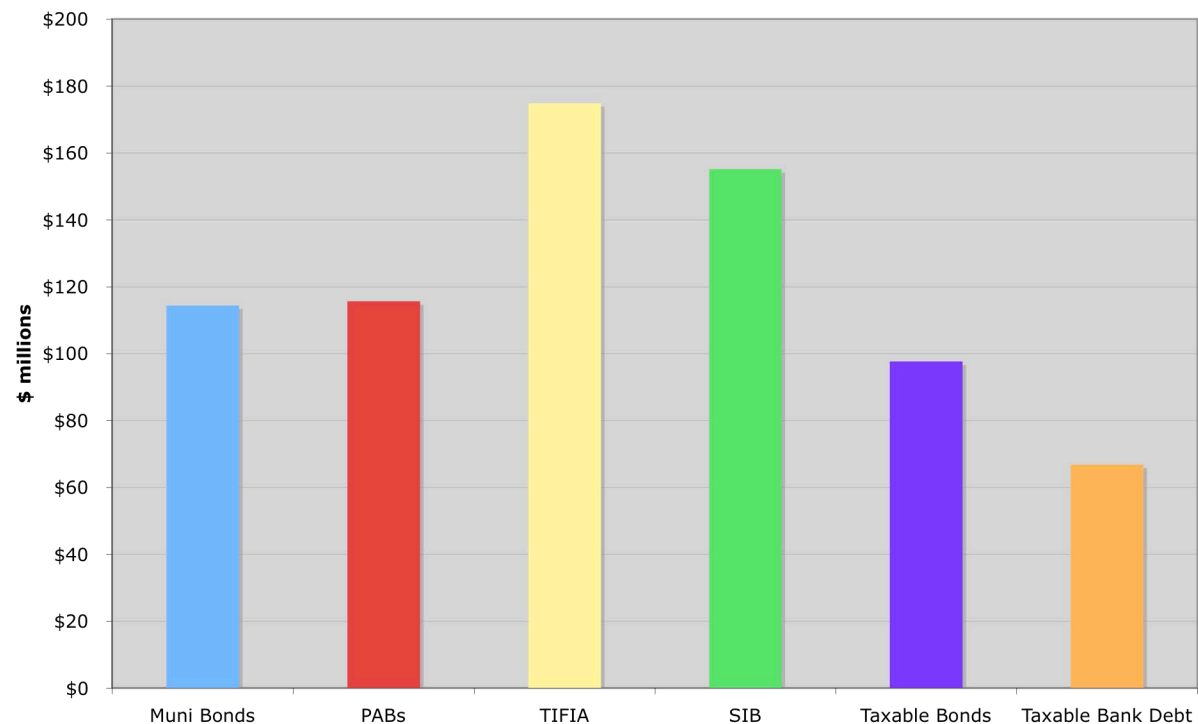


MAXIMIZE INNOVATIVE FINANCE SOURCES

Innovative finance often complements P3 financings



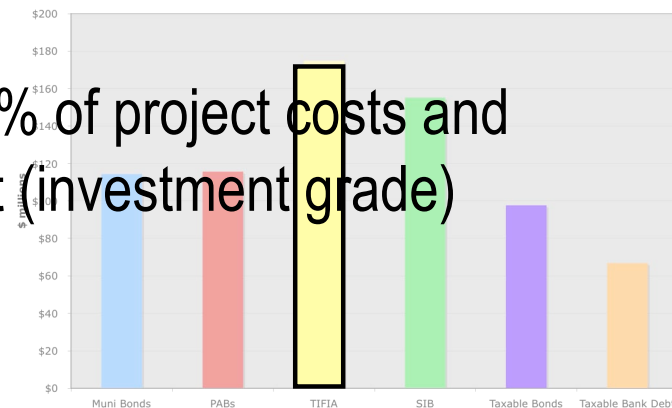
- This chart shows the effect of different financing vehicles on dedicated local fee receipts of \$9.9 million annually in 2010



Today, TIFIA is the best money around for innovative and P3 transit projects



- The Transportation Infrastructure Finance and Innovation Act (TIFIA) is “designed to fill market gaps and leverage substantial private co-investment providing supplemental and subordinate capital and credit rather than grants”
- Designed for major transportation investments of national significance, including inter-modal facilities, border crossing infrastructure, highway corridors and transit and passenger rail facilities
- TIFIA loans can be used for up to 33% of project costs and requires at least as much senior debt (investment grade)



TIFIA is the best money for innovative and P3 transit projects (cont'd)



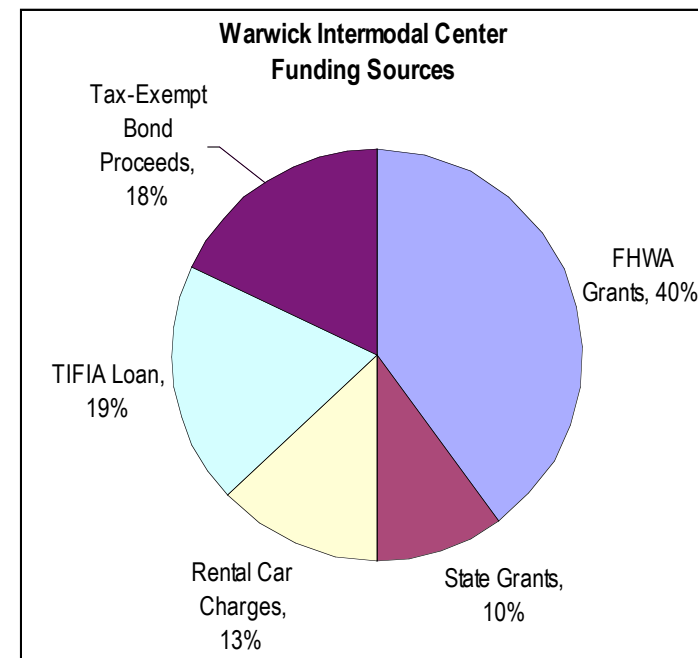
- TIFIA typically provides favorable loan terms such as:
 - Subordinate loans and guarantees
 - Long-term (35-year-plus) fixed-rate debt 10 year principal grace periods and Treasury rates
 - 1.10 coverage requirement
 - Rate fixed at financial close -- no-cost interest rate hedge
- Flexibility in program design allows innovation:
 - Back-loaded debt service structures
 - Lower payment default triggers
 - “Ultimate Recovery” DS approach: Loan Life Coverage Ratio
 - A (somewhat) subordinate and patient investor
 - Tren Urbano received a TIFIA loan for \$300 million



A rental car fee-backed TIFIA loan helped fund the Warwick Intermodal Facility



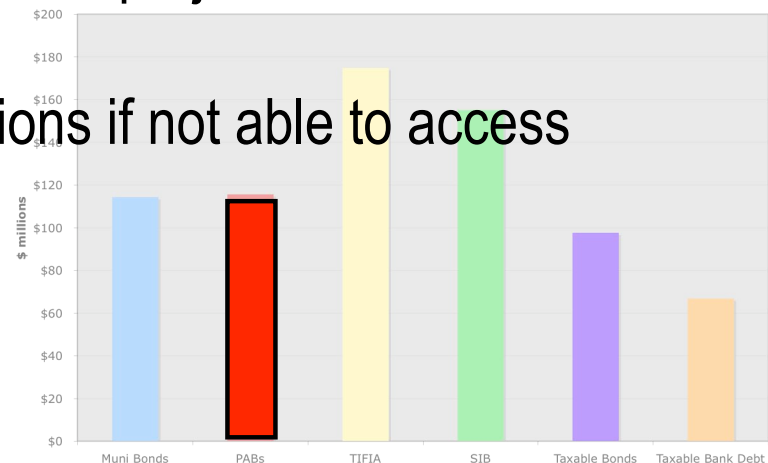
- \$200 M facility for rental car, parking, commuter rail, bus station, and future Amtrak facility
- Located on former super fund site, with opportunities for future office, hotel and other real estate growth
- Funded with rental car charges, other facility fees, federal and state grants



PABs allow P3s to access the tax-exempt market



- Private Activity Bonds (PABs) are subject to federal (USDOT) or state allocation (volume caps)
- Total Amount of \$15 billion in SAFETEA-LU authorized PABS to be allocated by USDOT are not subject to state volume caps
- Can be combined with other financing mechanisms like TIFIA and availability payments
- Allows private sector to finance public use projects at cost similar to public entities
- Limited availability due to state limitations if not able to access SAFETEA-LU authority

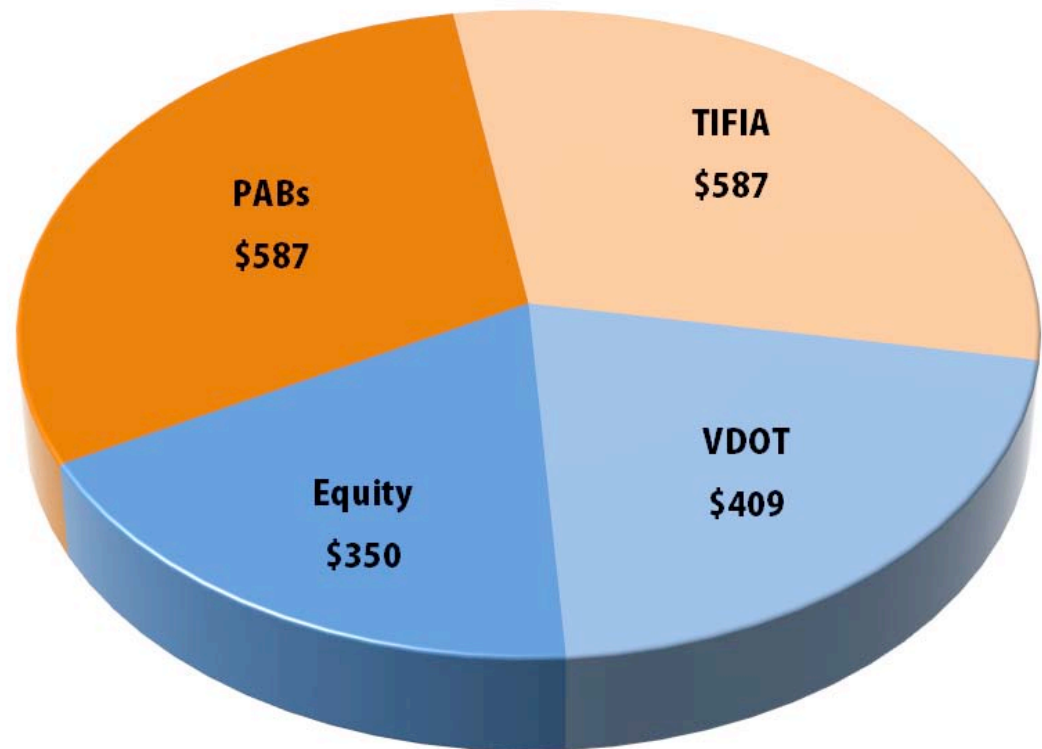


PABs, TIFIA and equity make a great combination



Capital Beltway Funding Sources (\$ M), Dec. 2007

- Private Activity Bonds: benchmark of 3.6% for 20 years + margin of 1.75% for 7 years (5.35%); total 40 years
- TIFIA: 4.45%, 40 years, < than 25% of interest paid can cause default
- PABs & TIFIA: no principal repayment, first 25 years



Source: "Capital Beltway," Investor Briefing, Transurban, December 21, 2007, www.transurban.com.au/transurban_online/tu_nav_black.nsf/alltitle/investors-presentations-2007?open

RRIF offers rail projects loans on less subsidized terms



- Railroad Rehabilitation & Improvement Financing (RRIF) is a revolving loan and loan guarantee program administered by FRA that is legislatively enabled to issue up to \$35 B
- Can fund up to 100 percent of project costs and allows for 5-year repayment grace period
- Funding may be used to:
 - Acquire, improve, or rehabilitate
 - Develop or establish new intermodal or railroad facilities
 - Refinance outstanding debt
 - Eligible applicants: state & local governments, railroads, government sponsored authorities, joint ventures



CASE STUDIES

CA High-Speed Rail (HSR) combines P3, innovative and grant funding



HSR's \$30 B expected to be sourced from state, feds, private companies, locals



| <u>Funding Sources</u> | <u>Amount (in \$B)*</u> |
|--|-------------------------|
| Public-Private Partnerships (P3) | \$5 to \$7.5 |
| State Support | \$9 to \$12.5 |
| Federal Support | \$10 to \$12.5 |
| Local Partnerships | \$2 to \$4 |
| Additional Funding Sources | |
| Environmental "Benefit Capture" | \$0.5 to ? |
| Additional Local Corridor Cost Sharing | \$1 to \$3 |
| Total Funding | \$27.5 to \$39.5 |

*All figures are in 2006 dollars.

Backed by container charges Alameda Corridor was an early innovative financing



| | |
|------------------------|--|
| Project | Alameda Corridor Freight Project, Los Angeles County, CA |
| Description | <p>20 mile rail cargo route connecting Ports of Los Angeles and Long Beach and rail yards near downtown L.A. Eliminates 200 surface street railroad crossings; smoothes port cargo flow and congestion. \$2.5 billion cost. Includes:</p> <ul style="list-style-type: none"> • North-end: grade separations and bridge replacements • Mid-corridor: 10-mile trench, 50 ft. wide, 33 ft. deep accommodating grade separated rail line (\$712 million) • South end: grade separations and bridge replacements |
| Sponsor | Alameda Corridor Transportation Authority, a joint powers agency of the cities and Ports of L.A. and Long Beach |
| Type of Finance | \$1.2 billion in revenue-backed bonds; \$400 million USDOT loan; \$394 million in grants from Ports of Long Beach and Los Angeles; \$347 million from Los Angeles County MTA; \$160 million in interest / other resources |
| Revenues | Corridor use fees and container charges |

Alameda Corridor was an early innovative financing (cont'd)



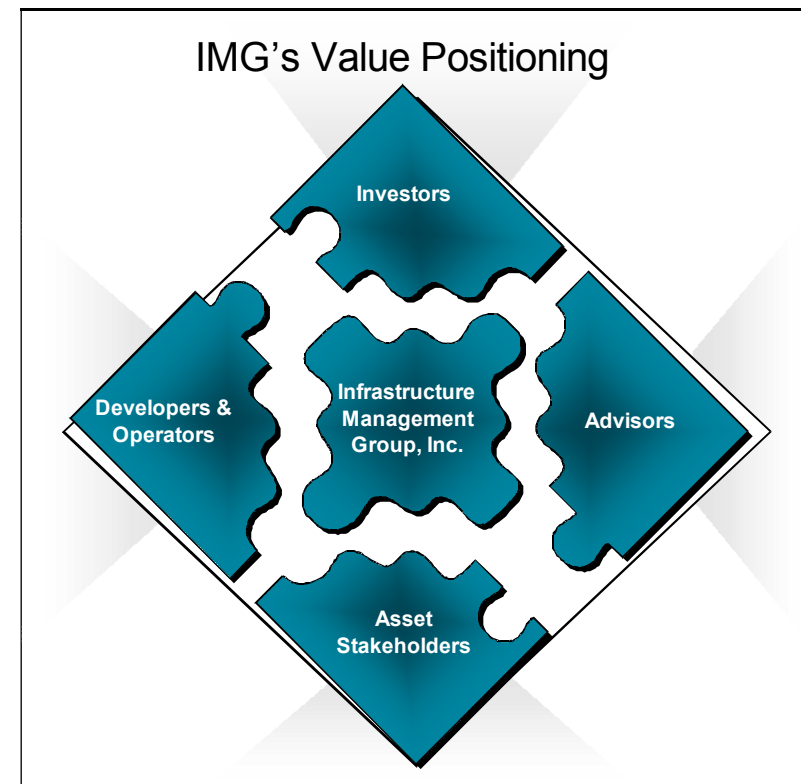
| | |
|-------------------------|---|
| Delivery Method | Design-Build (DB) for mid-corridor, Design-Bid-Build for north and south ends |
| Partner | Port of Los Angeles and Port of Long Beach |
| Project Advisors | Nossaman, Guthner, Knox & Elliott, LLP Aramax (formerly O'Melveny & Myers) O'Brien Partners, Inc. |
| Lenders | USDOT and Bondholders |
| Physical Status | Project opened April 15, 2002 |



IMG Group overview



- Headquartered in Washington, DC metro area
- Multi-disciplined team of 25 seasoned professionals with more than 150 years of infrastructure experience as authority directors, city managers, facility operators and financial executives
- 200+ engagements for 100+ public and private sector agencies, authorities, and investors
- \$100+ billion (B) of deals across the infrastructure lifecycle - feasibility, development, construction, finance, upgrade and mature operations
- Experience across 22+ U.S. states, the Americas, Europe, Africa and Asia
- IMG Capital launched in January 2008 to serve as international investment division for investor advisory and buy-side origination



Contact



Sasha N. Page

Vice President, Finance

Infrastructure Management Group, Inc.

4733 Bethesda Avenue, Suite 600

Bethesda, MD 20814

Phone: (301) 280-0155; Fax: (301) 907-2906

Cell: 301-675-3102, SPage@IMGgroup.com

